Workers' Compensation Board of Nova Scotia

Statement of Investment Policies and Objectives

Prepared By: FINANCIAL SERVICES
Board of Directors Approval: June 2, 1995
Revised Date: July 13, 1995
Revised Date: March 11, 1996
Revised Date: June 20, 1996
Revised Date: June 5, 1997
Revised Date: February 6, 1998
Revised Date: September 4, 1998
Revised Date: January 7, 1999
Revised Date: January 16, 2002
Revised Date: October 1, 2002

TABLE OF CONTENTS

INVESTMENT PORTFOLIO

1 INTRODUCTION AND GOVERNANCE 4

2 PURPOSE 6

3 ROLES AND RESPONSIBILITIES 7

- A Investment Committee 7
- B Fund Managers 8
- C Fund Custodian 9
- D Consultants 9

4 INVESTMENT OBJECTIVES 10

- A Primary Objectives 10
- B Benchmark Portfolio 10

5 CHARACTERISTICS OF THE LIABILITIES OF THE ACCIDENT FUND 12

6 INVESTMENT GUIDELINES 13

- A Asset Mix 13
- B Investment Constraints 13
- C Short Term Investments and Cash 15
- D Exceptions 16
- E Other 16

7 SECURITIES LENDING 17

8 CONFLICTS OF INTEREST 18

- A Standard of Care 18
- B Disclosure 18
- C Related Party Transactions 18

9 VOTING RIGHTS 19

10 ANNUAL REVIEW 20

11 VALUATION OF INVESTMENTS 21

12 PERFORMANCE EVALUATION 22

13 DISMISSAL OF INVESTMENT MANAGER 24

14 BORROWING 25

15 REBALANCING POLICY 26

SHORT-TERM INVESTMENTS

16 SHORT-TERM INVESTMENT POLICY 27

A Definition 27
B Policy Statement 27
C Product 27
D Rating 27
E Limits 28
F Term 28
G Financial Institutions 28
H Custody 28
I Approval 29

APPENDIX A DESCRIPTION OF THE LIABILITIES OF THE ACCIDENT FUND 30

HISTORY OF REVISIONS

DATE	REFERENCE
June 2, 1995	Original Document Approval
July 13, 1995	Section 8C
March 11, 1996	Section 14D and 14E
June 20, 1996	Section 6B
June 5, 1997	Sections 4B, 6B, 6E, 9, 12, 14 and 15
February 6, 1998	Sections 4A, 4B, 6A, 9, 12
September 4, 1998	Section 6B
January 7, 1999	Sections 15, 16
March 15, 2000	Section6B (revised but not re printed)
January 16, 2002	Sections 4A, 6B, 12
October 1, 2002	Sections 4B,6A,6B,12

WORKERS' COMPENSATION BOARD OF NOVA SCOTIA

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

INVESTMENT PORTFOLIO

1. INTRODUCTION AND GOVERNANCE

The Workers' Compensation Board is an independent agency of the Government of Nova Scotia. The Workers' Compensation Board administers a mutual accident insurance scheme whereby workers are compensated for loss resulting from work related injuries and employers are protected from suits alleging negligence. The Board administers a variety of benefits and vocational rehabilitation programs on behalf of injured workers and employers within the Province of Nova Scotia.

Benefits are defined independent of the value of the Fund Assets. The Fund Assets serve as security that awarded benefit commitments will be paid and are held in trust for injured workers. The annual establishment of assessment rates includes an estimate of investment revenue. The fund must achieve this target or a deficit may be created. The investment portfolio is a key component of the Board's funding strategy. This is of paramount importance given the magnitude of the unfunded liability.

There are four groups with significant interests in the Accident Fund: employees, employers, Board members, and the Government.

Employees have a significant interest in the Fund. The money provided by the employers is earmarked to provide compensation, vocational rehabilitation support, medical aid to workers who are injured out of and in the course of their employment, and to pay for the administration and legislated obligations of the legislation that establishes the basis for Workers' Compensation benefits. The level of security that these future costs will be paid is enhanced through prudent management of the Accident Fund. The basis for establishing benefits is provided by the Legislation.

Employers are responsible for providing the funding of Workers' Compensation benefits for injured workers. Therefore, employers stand to benefit from superior investment earnings if that translates into lower assessments; and conversely, employers will suffer from poor investment experience.

The Board of Directors have a fiduciary responsibility for prudently managing the assets in the Accident Fund on behalf of employers and injured workers. The overall management of the Accident Fund is subject to public accountability.

The Government's interest in the Fund is attributable to the fact that the benefits payable to injured workers are determined through the legislative process. The Workers' Compensation Act is a statute of the Province of Nova Scotia. Additionally, the Government now has secondary interest as it has, as part of its commitment to help stabilize the program's finances, guaranteed a 4.75% real rate of return on the investment funds.

The legislative authority governing the Board's investment of funds is Section 149 of the Worker's Compensation Act, RSNS 1989, c.508, as amended. The section reads as follows:

> "The Board may
>
> (a) invest any funds arising under any provisions of this Act or under the Board's control according to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return;..."

The Statement of Investment Policies and Objectives will **define** these policies, standards, and procedures.

2. PURPOSE

The purpose of this statement is to serve as a guide to those given responsibilities for fund management, including the Investment Committee, Fund Managers, and other parties having direct responsibility. This document will commit to writing the objectives and policies established by the Investment Committee. The purpose in establishing objectives and policies is two-fold:

1) To ensure that all parties involved in the management of the Fund clearly understand the policies, objectives, goals, and direction of the Fund.

2) To facilitate the delegation of Investment Management responsibilities.

The process of determining objectives and policies includes the following:

1) Clear identification of the nature of the liabilities of the Fund for which the Board of Directors have a fiduciary responsibility. The important characteristics to identify include the type of liability (a short term wage loss versus a benefit payable to age 65), the length of time the liability will be outstanding (one year versus twenty years), and the type of payment involved (single fixed amount versus monthly payments indexed to CPI).

2) Identification of assets which have characteristics similar to the liabilities being assumed (short term, fixed rate bonds for short term liabilities versus common stock equity investments for long-term indexed pensions).

3) Selection of the asset classes which best suit the needs of the liabilities and which will provide the highest rate of return at an acceptable level of risk.

4) Provision of sufficient diversification to eliminate unnecessary risk.

The basic goal is to ensure that the assets of the Fund, together with expected contributions, shall be invested in a continued, prudent, and effective manner so as to optimally meet the liabilities of the Workers' Compensation Board.

3. ROLES AND RESPONSIBILITIES

A Investment Committee

The Investment Committee is a standing committee, advisory to the Board of Directors. The Committee is comprised of three full members and three Ex-officio members.

The full members are all from the Board of Directors: the Chair, one employer representative, and one labour representative.

The Chief Executive Officer; the Executive Director, Finance and Administration; and the Executive Corporate Secretary comprise the Ex-officio membership.

The vice-chair will attend Investment Committee meetings.

The Investment Committee is responsible for reviewing and reporting to the Board of Directors on the administration, supervision and management of the investment program; and for recommending, where appropriate, changes to the Board of Directors for consideration.

Specifically:

- following the receipt of reports from appropriate staff, may meet with fund management organizations from time-to-time to discuss ongoing developments, performance, investment strategy and compliance with legislation and regulations;

- receive and review reports from appropriate staff concerning their monitoring of the overall results of external and internal management of resources, and

- to receive and review staff reports going to the Board of Directors on a quarterly basis.

In order to facilitate proper management of the assets, the Committee must establish the Statement of Investment Policies and Objectives. This Statement must be approved by the Board of Directors and should be reviewed on an annual basis or at such other times as the Board of Directors deem necessary.

The means by which the Committee carries out its responsibilities are varied. It may use internal personnel and/or retain professional expertise for advice, portfolio management, performance measurement, or such arrangements as the Committee may recommend to the Board of Directors or the staff of the Workers' Compensation Board to meet the investment objectives. Administrative support will be provided by the Manager of Financial Services. Meetings will be at the call of the Chair, or as directed by the Board of Directors. The Committee should meet at least four times per year to review investment matters including among other things, the following:

1) The investment performance of the Fund for the previous period.

2) The performance of the Investment Manger(s) for the same period.

3) To review any investment opportunities which are outside of policy but are being brought forward by management for approval of the Committee.

4) To review the investment outlook for the future.

5) To consider any changes to the Statement of Investment Policies and Objectives.

The Committee will provide advice and direction to the Board of Directors on a quarterly basis, or more frequently if a meeting is requested by the Committee or the Board of Directors. In addition, the Committee will report to the Board of Directors on Fund performance and investment strategy.

B Fund Managers

Periodic meetings with the Investment Committee will be scheduled for each Fund Manager.

At each meeting, each Fund Manager shall be prepared to discuss the following topics:

- discuss compliance with the Statement of Investment Policies and Objectives.
- a review of the firm including changes in personnel, client growth or decline, asset growth or decline, etc.
- the time weighted rate of return, including investment income and realized and unrealized capital appreciation and depreciation for the most recent quarter and for the one, two, three, four, and five year periods ending with the most recent quarter.
- a comparison of the value of the portfolio since the previous quarter or meeting and the end of the previous year.
- a review of the transactions undertaken during the most recent quarter with a list of brokerage firms and commissions.
- a review of both equity and fixed income segments of the portfolio, if applicable, plus a forecast of anticipated changes during the next quarter or longer.
- an economic review and capital market forecast.
- inform the Committee of any new investment opportunities/asset classes and how they might assist the achievement of fund objectives.

- other items as determined by the Investment Committee.

The investment managers will participate in any annual review of the Statement of Investment Policies and Objectives. They will be required to complete a "statement of compliance" annually.

Specific responsibilities are outlined in individual manager agreements.

C Fund Custodian

The Fund Custodian will fulfil the regular duties required by law of a Custodian/Trustee and duties outlined in the custodial agreement.

The custodian will provide the Board with monthly and annual reports detailing asset holdings and transactions during the period. In addition, the custodian will provide the Board with periodic rates of return of the total fund, each manager, and each asset class as agreed in our contract.

D Consultants

Consultants may be engaged to perform specific services that may include (but are not limited to) the following:

performance measurement, reviews of the statement of Policies and Objectives, manager searches, provision of research and empirical information, etc.

The responsibilities will be set out by the terms of each engagement.

4. INVESTMENT OBJECTIVES

A Primary Objectives

The Board's investment policies must be responsive to the mandate to pay benefits. Two important goals must be recognized:

1) Inflation Protection - The Board's income replacement benefits will be indexed effective January 1, 2000, and thus will continue to grow year after year.

2) Liquidity Requirement - The Board has a significant need for cash as payment of benefits to injured workers begins as soon as the award has been made. It is anticipated that these liquidity requirements are facilitated by the operational cash flows of the Board.

The investment policies to be followed by the Board's Investment Managers must reflect the potentially conflicting requirements of these two goals.

The funds assets will be managed on a going-concern basis, with the primary objective of maximizing returns at an acceptable level of risk; which presumes management of the portfolio to an average allocation over time to asset classes in the proportions indicated in the benchmark portfolio.

Specific manager objectives are identified on Page 23, Section 12. Performance Evaluation.

B Benchmark Portfolio

A benchmark portfolio constitutes a "neutral position" that is representative of the fund's long-term risk tolerance. It represents the portfolio that would be used if the fund were passively managed (i.e. no short-term asset mix movement, no securities selected outside the various indices). Such a fund could be managed at a low cost and the returns generated would be those of the broad indices representative of the invested asset classes.

The benchmark portfolio significantly enhances performance measurement/monitoring and allows the statement of Investment Policies and Objectives to be used as a true management tool.

Based on the policies contained in the document, the benchmark portfolio is constructed as follows:

ASSET CLASS	PERCENTAGE
Canadian Equity	30%
US Equity	15%
International Equity	15%
Nominal Bonds	30%
Real Return Bonds [1]	10%
Cash and Short-term	0%
	100%

[1] Nominal Bonds until allocation completed.

The benchmark portfolio will be rebalanced quarterly.

5. CHARACTERISTICS OF THE LIABILITIES OF THE ACCIDENT FUND

The most significant characteristics of the liabilities of the Fund are:

Long-Term Disability Liabilities: Accidents occurring prior to March 23, 1990 that result in permanent disability produce pensions that are payable for biological life. In addition, supplementary benefits are available for eligible injured workers. Compensable injuries after this date that result in permanent impairment produce a monthly (small amounts may be paid as a lump sum) benefit based on the impairment, payable for biological life. Accidents after March 23, 1990 resulting in extended earnings replacement benefits (EERB) generate monthly benefits payable to age 65. Annuities based on permanent impairment benefits (PIB) and EERB will be payable at this time. Pensions, PIB's, and EERB's will be indexed (one half of the annual change in CPI) commencing January 1, 2000.

Survivor Benefits: These liabilities are long-term in nature and include monthly pension payments to surviving spouses of workers who have died as a result of a compensable accident. Fatalities that occur prior to the date of proclamation of the new Workers' Compensation Act result in pensions that are payable to surviving spouses for their biological life. Compensable deaths after that date produce benefits that will be paid to the later of the age the deceased worker would have attained the age of 65 years or until the surviving spouse attains the age of 65. A surviving spouse is also entitled to an annuity. In addition, monthly pension payments to dependants of these deceased workers are payable for defined periods based on age and educational requirements. These payments will be indexed (one-half of the annual change in CPI) commencing January 1, 2000.

Short-term Disability: These earnings loss liabilities are short-term in nature. Payments of a defined period will be indexed according to the annual change in the Canadian Consumer Price Index commencing January 1, 2000.

Health Care: Medical services are provided both in the short-term and long-term depending on the nature of the injury. This liability will increase with the overall price increase of these services.

Rehabilitation: This liability is in relation to the vocational and psychological costs associated with rehabilitation. It is short-term in nature and the liability will increase in line with increase in prices of these services.

The significant investment implications relating to these liabilities are:

1) In general, a long-term investment horizon can be adopted for the portion of the liabilities that are long-term in nature. However, given the current magnitude of the unfunded liability, the ability to match assets to specific liabilities is constrained.

2) Investments that tend to protect against inflation are appropriately matched against liabilities whose cost are related to inflation, directly or indirectly.

6. INVESTMENT GUIDELINES

A Asset Mix

The following ranges are based on the market value of the total portfolio. Should there be a desire to deviate from this policy, or revise it, a written submission should be provided to the Committee detailing the proposed changes and supporting evidence justifying the proposed change.

Asset Mix ranges for the Fund:

Asset Class	Minimum %	Maximum %
Canadian Equity	20	40
Foreign Equity (including U.S.)	20	40
Total Equity	50	70
Bonds	30	50
Cash & Short-term Investments	0	15
Total Debt & Cash	30	50

B Investment Constraints

Equity

Defined As: Common shares, rights, warrants, and securities convertible into common shares.

Unless otherwise identified as a private equity investment, all investments in equity will be limited to publicly traded issues and in Canada, to securities of a Canadian issuer. Foreign equity will be limited to equities that are traded on recognized exchanges in each country represented.

The use of pooled funds for the purposes of investing in Foreign equities is allowable. It will be permitted only if the investment policy of the pooled fund is consistent with this Statement of Investment Policies and Objectives. It will be incumbent upon the Investment Manager to demonstrate such consistency if requested to do so by the Board of Directors.

No one holding should represent more than 10 percent (market value) of the total equity portfolio, nor should it be more that 10 percent of the voting shares of any corporation.

No private equity investments will be made without the prior written approval of the Investment Committee.

The Investment Committee authorizes our investment managers to engage where they deem it to be appropriate in transactions involving derivative products for the expressed but limited purpose of hedging foreign currency exposures on stocks held in foreign jurisdictions. Currency hedging will be limited to 50 percent of the Workers' Compensation Board's foreign exposure on account with the manager. Without limiting the generality of the forgoing, derivative instruments are to be utilized solely for the purpose of reducing currency risk on foreign stocks.

Managers are to confirm annually that their respective organizations have the appropriate internal policies and procedures to monitor and measure risk and to inform us of our risk profile when these transactions are executed. Any change in the managers' internal controls are to be reported to the WCB immediately.

In addition, as a part of quarterly reporting, managers will report when hedges are put in place, removed, and the associated results.

Derivative products are not to be utilized for the purpose of leveraging exposure of underlying securities.

Debt

Defined As: Bonds and debentures.

"The weighted average credit rating of the bond portfolio will be maintained at or above A^{+}". The minimum quality standard for individual bonds and debentures at the time of purchase is "BBB", as rated by the Canadian Bond Rating Service, and/or by the Dominion Bond Rating Service. For purposes of this Section, all debt ratings refer to the ratings of Dominion Bond Rating Service (DBRS) unless otherwise indicated, however, equivalent ratings by another major credit rating agency can be used.

Holdings of "BBB" bonds are permitted to a maximum of 10 percent of the bond portfolio. If a bonds credit rating falls below "BBB" after the purchase date, the Manager shall remove it from the portfolio as soon as practical, but taking care not to unduly impair performance. Debt rated below "BBB" at he time of purchase is not permitted.

The DBRS defines the bond and long-term debt ratings as:

AAA-Bonds which are rated AAA are of the highest credit quality. The degree of protection afforded principal and interest is of the highest order. Earnings are relatively stable, the structure of the industry in which the entity operates is very strong, and the outlook for future profitability is extremely favourable. There are few qualifying factors present which would detract from the performance of the entity, and the strength of liquidity and coverage ratios is unquestioned.

AA-Bonds rated AA are of superior credit quality, and protection of interest, and principal is considered high. In many cases, they differ from bonds rated AAA to a small degree.

A-Bonds rated "A" are of upper medium grade credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. Entities in the "A" category may be more susceptible to adverse economic conditions and have greater cyclical tendencies.

Canadian bonds denominated in foreign currencies (foreign pay bonds) are permissible to a maximum of 20 percent (market value) of the bond portfolio.

All foreign bonds, whether in Canadian currency or native currency, require Investment Committee approval prior to purchase.

Corporate debt obligations will not exceed 50 percent (market value) of the bond portfolio. No individual corporate issuer will exceed 5 percent (market value) of the bond portfolio.

Private placement bonds and debentures will not exceed 10 percent (market value) of the bond portfolio and all unrated bonds will be assigned a rating by the Investment Committee (based on discussions with the fund managers) prior to purchase.

C Short-Term Investments and Cash

Defined As: Cash on hand, demand deposits, treasury bills, short-term notes, bankers' acceptances, term deposits and guaranteed investment certificates purchased with a maturity of one year or less and reside in the investment portfolio.
The cash and short term investments in the securities of one issuer will not be more than 10 percent of the total market value of all cash and short term investments held by the fund, unless the issuer is guaranteed by the Government of Canada or one of the provinces of Canada.

The purchase of short-term investments issued by corporations and financial institutions is restricted to those which have a minimum rating of "R-1" by the Dominion Bond Rating service, or equivalent; except for Province of Nova Scotia issues which have an "R-2" high level rating. It is anticipated that the investment managers will invest only in instruments of the highest quality. Securities with an "R-1" rating, as rated by the Dominion Bond Rating Service, or a Province of Nova Scotia "R-2" high level rating are permissible investments.

D Exceptions

When applying the guidelines, it is recognized that there may be occasions during which the policies are not met temporarily for valid investment reasons. It is the responsibility of the investment manager to report any violations and to recommend appropriate remedies.

No other category or type of investment is allowed without the prior written approval of the Investment Committee.

E Other

All investments will be made in accordance with Standard IV.B.2 of the AIMR Standards of Practices Handbook. The standard requires that the Fund Manager, when taking an investment action for a specific portfolio or client, consider its appropriateness and suitability for such portfolio or client. In considering such matters, the Fund Manager shall take into account:

- the needs and circumstances of the client,
- the basic characteristics of the investment involved, and
- the characteristics of the total portfolio.

The Fund Manager will use reasonable judgement to determine the applicable relevant factors.

7. SECURITIES LENDING

The securities of the Fund may be loaned by the custodian provided that:

- The custodian sets individual credit limits per borrower which are reviewed at least annually. In addition, their financial strength, credit rating, and reputation are reviewed.

- The loans are secured by cash or readily marketable investments having a market value of at least 105 percent of the market value of the securities loaned.

- The loans are marked to market daily to ensure the collateral continues to have a market value of at least 105 percent of the market value of the loaned assets.

- The securities are not loaned to facilitate a dividend rental arrangement.

8. CONFLICTS OF INTEREST

A Standard of Care

The members of the Board of Directors and its Investment Committee, as well as all agents (fund managers, custodian, consultant, administrator) employed by the Board, must maintain a standard of prudence and reasonableness in the management of the Board's funds.

An agent is defined to mean a company, organization, association or individual, as well as its employees, retained by the Board to provide specific services with respect to the administration and management of the Fund.

In carrying out their duties, the Board of Directors must act in the best interest, and for the benefit, of present and future participants in the Accident Fund. Agents, whose duties to the Board are mainly contractual, must act with the skill that can reasonably be expected of a person in their professional position.

B Disclosure

In the execution of their duties, members of the Board of Directors and their agents shall disclose any material ownership of securities, which could impair their ability to render unbiased decisions, as it relates to the administration of the Fund.

Further, it is expected that no Board member nor agent, shall make any personal financial gain (direct or indirect) because of their fiduciary position.

It is incumbent on any party affected by this Statement who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to notify the Chair of the Board. Disclosure should be made promptly after the affected person becomes aware of the conflict. The Chair, in turn, will decide what action is appropriate under the circumstances, but, at a minimum, will table the matter at the next regular meeting of the Board of Directors.

No affected person who has or is required to make a disclosure as contemplated in this Statement shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

No affected person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from an individual with whom the person deals in the course of performance of his or her duties and responsibilities for the Accident Fund.

C Related Party Transactions

Any party with whom the Board contracts will not engage in a non-arm's length transaction without the prior written approval of the Investment Committee.

9. VOTING RIGHTS

The Fund Manager is delegated the responsibility of exercising all voting rights acquired through the Fund's investments. The Fund Manager will exercise acquired voting rights with the intent of fulfilling the investment objectives and policies of the Fund. The Investment Committee reserves the right to exercise voting rights on the Fund securities when it is deemed appropriate. When the Fund Manager votes against management on a particular issue, the Fund Manager will notify the Investment Committee in writing providing a brief rationale for voting against management on the particular issue while continuing to hold the investment.

10. ANNUAL REVIEW

This policy is open to review at any time, but should be reviewed annually.

11. VALUATION OF INVESTMENTS

The Investment Committee expects that all the securities held by the Fund will have an active market and therefore valuation of the securities held by the fund will be based on their market values.

The Fund Manager will notify the Investment Committee if the market for any investment held by the Fund becomes inactive and provide for the Investment Committee's consideration a method for valuing the affected investment.

12. PERFORMANCE EVALUATION

The performance objective is to generate a consistent, positive real rate of return on invested assets which will provide for payment of all liabilities as required. There are numerous methods to measure this objective and the following outlines the targets set for the Board's investment fund:

Fund Management Objective:

To exceed (on a five year moving average) the return generated by the benchmark portfolio by 0.65 percent (before investment management fees). The rate of return for the benchmark portfolio will be calculated based on the following parameters:

ASSET CLASS	PERCENTAGE	BENCHMARK INDEX
Canadian Equity	30%	BMO Nesbitt Burns Toronto Stock Exchange 300 Capped (10%)Total Return Index
U.S. Equity	15%	Standard & Poor's 500 Total Return Index (in Canadian Dollars)
International Equity	15%	Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE) Total Return Index (in Canadian Dollars)
Nominal Bonds	30%	Scotia Capital Universe Bond Total Return Index
Real Return Bonds[1]	10%	Scotia Capital Real Return Bond Total Return Index
Cash and Short-term	0%	Scotia Capital 91 Day Treasury Bills Total Return Index
	100%	

[1] Nominal bonds until allocation implemented.

All applicable fees will be reviewed in comparison to the performance objectives to ensure that the returns in excess of benchmarks exceed the cost of active management.

Investment returns are measured on a time-weighted basis. The benchmark will be adjusted to reflect the provisions of the Trustee Act for the applicable period of any review.

The portfolio benchmark will be rebalanced quarterly.

In addition, individual asset classes will be compared to relevant indices. Specialist portfolios (if applicable) will be compared to the appropriate class market index returns.

Investment results will be monitored and reviewed on a quarterly basis. Performance will be assessed by comparing actual results to the investment objectives, based on five year, moving average time periods.

Active Manager Guidelines and Performance Evaluation:

Asset Class	*Benchmark %*	*Minimum %*	*Maximum %*
Canadian Equity	*30*	*15*	*45*
U.S. Equity	*15*		
International Equity	*15*	*15*	*45*
Total Equity	*60*	*45*	*75*
Nominal Bonds	*40*	*25*	*55*
Cash and Short-term	*0*	*0*	*20*
Total Debt & Cash	*40*	*25*	*55*

Active Manager Objective:

To exceed (on a five year moving average) the return generated by the benchmark portfolio by 1.0 percent (before investment management fees).

Indexed Manager Guidelines and Performance Evaluation:

Asset Class	*Benchmark %*
Canadian Equity[1]	*30*
U.S. Equity	*15*
International Equity	*15*
Total Equity	*60*
Nominal Bonds	*10*
Real Return Bonds[2]	*30*
Cash and Short-term	*0*
Total Debt & Cash	*40*

(1) Other allowed benchmark: S&P/TSX Capped Composite Total Return Index
(2) Nominal bonds until allocation implemented

The Indexed Manager will be expected to track, as closely as possible, the asset mix and the return of the above benchmark. The Manager shall take appropriate action to maintain the asset mix at or close to the benchmark.

Indexed Manager Objective:

To match (on a five year moving average) the return generated by the fund benchmark portfolio with a tracking error of ±0.25 percent (before investment management fees).

13. DISMISSAL OF INVESTMENT MANAGER

Reasons for terminating the service of the investment manager include, but are not limited to, the following factors:

- Investment performance, which over a reasonable period of time, is below the stated performance objectives.
- Changes in personnel, firm structure, investment philosophy, style or approach which might adversely affect the potential return and/or risk level of the portfolio.
- Failure to adhere to the stated investment guidelines.
- Failure to satisfy the stated responsibilities.

14. BORROWING

Borrowing on behalf of the Fund is only permitted in order to pay benefits or expenses with the written approval of the Investment Committee.

15. REBALANCING POLICY

Periodic distributions to managers or withdrawals from managers should be divided evenly among the managers. There will be no attempt to rebalance the managers with periodic distributions or withdrawals unless previously specified by the Investment Committee.

16. SHORT TERM INVESTMENT POLICY

A Definition

Securities purchased with a maturity of one year or less. The funds are required to meet the day-to-day expenditures of the Board in a twelve month cycle. They reside outside the long-term investment portfolio.

B Policy Statement

The Finance Department is responsible for the management of the Board's short-term investment portfolio.

The overall investment objective for the short-term portfolio is to obtain a reasonable rate of return while maintaining a high degree of liquidity and matching as closely as possible the maturity of the assets to anticipated disbursements.

C Product

It is the policy of the Board to invest only in the following low-risk products:

- Government of Canada Treasury Bills
- Bankers Acceptance
- Commercial Paper ("R-1" rating)
- Term Deposits of Schedule I Banks and Major Trust companies
- Short-Term debt of the Provinces (including promissory notes)
- Debt of the Government of Canada that is less than one year.
- Debt of non-Canadian issuers and foreign-pay debt of Canadian issuers are not permitted.

D Rating

The minimum quality standard for individual bonds and debentures is "A", as rated by the Canadian Bond Rating Service, and/or "A" rating by the Dominion Bond Rating Service. Provincial short-term debt or paper and debt of agencies guaranteed by the Provinces may be rated lower than "R-1" but may not exceed 10 percent of the short-term portfolio, except for Province of Nova Scotia issues which have no such limits so long as they remain at an "R-2" high level.

E Limits

Corporate: Short-term debt on paper of any one corporate issuer shall not exceed 5 percent of the short-term portfolio.

Provincial Issues: Provincial issues rated lower than "R-1" shall not exceed 10 percent of the short term portfolio, except for Province of Nova Scotia issues which the WCB may invest in at an "R-2" high level without such limits. There is no limit for Provincial Issues rated as "R-1".

Treasury Bills - no limit
Government of Canada - no limit

F Term

Investments are to be for a term not to exceed one year.

G Financial Institutions

Investment products should be purchased only from the following:

- Any registered member of the Investment Dealers Association
- Schedule I or II banks
- Any of the following trust companies:

  Royal Trust
  Canada Trust
  Montreal Trust
  National Trust

- Province of Nova Scotia-Department of Finance

H Custody

All investment assets will remain in the custody of the Investment Dealer, Financial Institution, Custodian, or the Board.

I Approval

The short-term day to day investment activities are under the immediate direction of the Finance Department. Approval is outlined as follows:

Authorization Levels

Investment Amount	Duration	Authorized By
0 - $7,000,000	1 - 7 days	Senior Accounting Assistant
0 - $10,000,000	1 - 7 Days	Manager, Financial Services
0 - $20,000,000	1 - 120 Days	Executive Director Finance & Administration
$20,000,000+	1-365 Days	Chief Executive Officer

APPENDIX A

DESCRIPTION OF THE LIABILITIES OF

THE ACCIDENT FUND

DESCRIPTION OF THE LIABILITIES OF THE ACCIDENT FUND

The two major groups of long-term disability liabilities and short-term disability and related liabilities can be further broken down into sub categories as follows:

Long-Term Disability Liabilities and Survivor Benefits

1. **Permanent Disability Pensions (pre-March 23, 1990 Accidents)**

   Accidents prior to March 23, 1990 that result in a permanent disability produce pension awards based on the degree of medical impairment as determined by a clinical rating schedule. The percentage of impairment is applied to 75 percent of the gross average earnings of the worker at the time of the accident. The awards were usually monthly payments but policies (based on award parameters) provided for lump sum payments. The monthly pensions will be indexed (one-half of the annual change in CPI) commencing January 1, 2000. These pensions are payable for biological life.

   In addition, supplementary benefits are available to injured workers who meet eligibility criteria based on age, income, and other parameters. These benefits are payable to age 65.

2. **Permanent Impairment Benefits (PIB) (accidents occurring on or after March 23, 1990)**

   Accidents in this time frame that result in permanent impairment are compensated based on the percentage of impairment applied to 30 percent of 85 percent of the worker's net average earnings. These awards can be monthly payments for biological life or processed as lump sum payments. The monthly payments will be indexed (one-half of the annual change in CPI) commencing January 1, 2000.

3. **Extended Earnings Replacement Benefits (EERB) (accidents occurring on or after March 23, 1990)**

   These accidents that result in EERB's will compensate injured workers based on 85 percent of the difference between their pre and post net accident earnings. These earnings replacement benefits will be paid periodically until the worker attains age 65 (or the date the loss of earnings ends, whichever is earlier). The periodic payments will be indexed (one-half of the annual change in CPI) commencing January 1, 2000).

4. **Annuities**

Injured workers eligible for EERB's will be entitled to an annuity. The annuity will be based on 5 percent of the EERB and PIB awards (as periodic payments are made). The accumulated funds together with accrued interest will be payable in periodic instalments (or as a lump sum) when the worker attains age 65.

Long-term Disability Liabilities comprise 69.5 percent of total benefit liabilities as at December 31, 1994.

5. **Survivor Benefits (accidents prior to March 23, 1990)**

Compensable injuries that result in the death of a worker entitle a surviving spouse to a monthly pension based on 75 percent of the gross average earnings of the deceased worker. This award is payable for the biological life of the surviving spouse. Monthly pensions are also payable on behalf of dependent children for a defined period of time based on age and educational requirements. Other dependants may be entitled to compensation in respect of the deceased worker as well. These pensions will be indexed (one-half of the annual change in CPI) commencing January 1, 2000.

A surviving spouse is also entitled to a death benefit. Burial expenses and transportation costs are also covered by compensation.

6. **Survivor Benefits (accidents after March 23, 1990)**

Compensable injuries that result in the death of a worker entitle a surviving spouse to a monthly pension based on 85 percent of the net average earnings of the deceased worker. This award is payable until the worker would have attained age 65 or until the surviving spouse attains age 65, whichever is later. A surviving spouse is also entitled to an annuity based on 5 percent of the survivor pension award (as periodic payments are made). Monthly pensions are also payable on behalf of dependent children for a defined period of time based on age and educational requirements. Other dependants may be entitled to compensation in respect of the deceased worker as well. These pensions will be indexed (one-half of the annual change in CPI) commencing January 1, 2000.

A surviving spouse is also entitled to a death benefit. Burial expenses and transportation cost are also covered by compensation.

Survivor Benefits represent 14.5 percent of total benefit liabilities as at December 31, 1994.

The average duration of payments of existing long-term disability and survivor benefit liabilities is estimated to be 14 years.

Short-Term Disability and Related Liabilities

1. **Short-Term Disability** -Temporary earnings replacement benefits are paid for loss of earnings capacity at 75 percent of the worker's loss of earnings for the first 26 weeks and 85 percent thereafter. Commencing January 1, 2000, injured workers who have received temporary earnings replacement benefits for more than 12 continuous months have these benefits indexed on January 1 following this anniversary. The indexation is based on that calculated above for long-term disability awards. Short-term disability benefits include income benefits during a rehabilitation period.

   This liability comprises 8.2 percent of total benefit liabilities as at December 31, 1994.

2. **Health Care** - This is the cost to the Board of medical services resulting from a compensable accident.

   Health Care represents 6.4 percent of total benefit liabilities as at December 31, 1994.

3. **Rehabilitation** - This relates to benefits for the rehabilitation of an injured worker, including vocational and psychological rehabilitation costs. This excludes income benefits to the injured worker during the rehabilitation period (included in short-term disability).

   This category represents 1.4 percent of total benefit liabilities as at December 31, 1994.

The average duration of payments of these existing liabilities is estimated to be two years.

Funding of Liabilities

The funding of long-term disability liabilities and survivor benefits is significantly different than that of the temporary earnings replacement liabilities and is a function of the nature of each type of liability. Pension/impairment liabilities are long-term annuity type payments with an average life of 14 years. This requires assets which are long-term in nature and which track inflation since pension payments will be indexed to the Consumer Price Index.

The temporary earnings replacement liabilities are much shorter in nature. Theoretically, to correctly match the duration of the assets purchased with the payout requirements of these liabilities, it would be appropriate to purchase one year investments in an amount equal to the liabilities coming due in one year, two year investments in amount equal to the liabilities coming due in two years and so on. Currently this is not required, since assessment premium income exceeds temporary earnings replacement payments in the year. The best asset vehicle to match the temporary earnings replacement liabilities is a debt investment which meets the income requirements and provides security of principal.